P.T.R. RESEARCH AND DEVELOPMENT

CH - 2003 NEUCHATEL / SWITZERLAND

INTER - OFFICE CORRESPONDENCE

STRICTLY CONFIDENTIEL

To: Mr. S.C. Darrah

Date: February 23, 1989

From: J. B. Boder

Doc name:

Subject: Next Meeting with BAT

Copy:

M.C. Bourlas

The second meeting between BAT and PM to discuss further the possibility of an agreement will take place on March 6-7, and you will find below the strategies agreed upon by Mr. Westcott and myself.

Could you let us have your comments by the beginning of next week so that we have enough time to modify them if necessary.

1. Swiss legal case

- The ruling on the merit of the case was already given by the Geneva court and was not appealed by BAT. Therefore, there is no doubt that we will be awarded damages. The amount is still to be decided by the Court.

- PM is not the only company involved if the legal proceedings are to be interrupted. None of our actions or undertakings should prejudice our position and give the impression that we are not in agreement with previous legal rulings.

- Burrus could continue the case just by waiting for a decision from the Geneva court.

- Burrus has nothing to gain by stopping the legal action (no interest in other markets).

- It is important for us to maintain good relations with the other manufacturers because of the need of collaboration within the Swiss industry on other important matters.

Strategy

- PM would agree to a settlement if BAT accept a reasonable tar rating for Barclay (6 mg) and - this is equally important - a satisfactory solution to the marketing of Barclay as soon as the the PM-BAT agreement is reached (Details below).

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Source: https://www.industrydocuments.ucsf.edu/docs/mgdk0000

- A settlement out of court must be reached with all four plaintiffs on the initiative of BAT

- We believe that Burrus and Laurens would only agree if a reasonable compensation is proposed.

2. No new litigation started during discussions (PM-BAT)

We could agree to this provided BAT make no new 1 mg Barclay launches and do not become aggressive in markets where Barclay is already launched by initiating a tar league war (i.e. Turkey).

This, of course, will depend on negotiations proceeding smoothly and rapidly. (Agreement to be reached by the end of April 1989).

3. Interim period (from the endorsment by BAT/PM senior Management until publication of the new official method for CVC's)

Sequence of events:

Stage 1: PM - BAT negotiations + agreement

Stage 2: Development of method within CORESTA Task Force No 10.

Stage 3: Method ratification by a) CORESTA Smoke Study Group
b) CORESTA Scientific Commission
c) CORESTA board

Stage 4: Acceptance and publication of CORESTA method by ISO

a) Publication and vote on a Draft Proposal
b) Publication and vote on a Draft International Standard

Stage 5: Implementation at national level.

We call "Interim period" stages 2 to 5.

The sequence of events represents the official procedure (which could take up to 3 years). However, we believe that with the support of BAT, not only could this period of time be considerably reduced, but the CORESTA method could also be implemented at the local level after stage 3 in most countries. In addition, in certain GC countries, the DIN or Swiss method could be used immediately as an interim measure.

In the event of an agreement, we will expect BAT to facilitate for us the steps outlined above. Furthermore, we consider to include in the agreement that they would, wherever possible, implement the CORESTA method after stage 3. Belgium and Holland are perhaps the only countries where this could be difficult.

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Parallel to the above will be the judgment on damages awarded by the Swiss court (last hearing scheduled for May 23, decision expected after the summer vacation). If a satisfactory agreement becomes dependent on an early decision to settle out of court in Switzerland, then as an sign of goodwill, BAT should voluntarily agree to use the DIN vornorm immediately in the GCC as an interim measure.

and all EC markets + Nordic Finland

4. 1 mg tar for conventional cigarettes

It is generally accepted by technical experts that the accuracy of the present method does not permit a differentiation between brands of less than 2 mg. This of course casts some doubts on the accuracy of tar values below 2 mg. It must be understood that BAT will require to have this technical point taken into account in the new method. This, we believe, they need as a "face saver".

We will request BAT to detail their proposal in this area.

5. Tar level for Barclay

A review of relevant data concerning the tar delivery of Barclay clearly shows that a fair and equitable value lies between 7-9 mg. This is supported by both human smoking and metabolic studies. The value obtained by using the DIN Vornorm procedure is between 5 and 5.5 mg while in Switzerland 1 and 9 mg are printed on the packet.

Therefore, in our opinion, a tar figure of 6 mg for Barclay is fair and we propose to begin negotiating at 7 mg and not to go below 6 mg at the next meeting.

- Belgium : Hard to get from 7 mg to 6 mg.
- Finland / GCC / Holland
- Turkey

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